

The Michigan Tech Fund
STATEMENT OF INVESTMENT POLICY

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Statement of Investment Policy for Michigan Tech Fund

EXECUTIVE SUMMARY

- The Board of Directors (the “Board”), ultimately, is responsible for making the decisions that affect Michigan Tech Fund’s investment (the “Funds”). The Board receives information and recommendations from the Investment and Finance Committee (the “IF Committee”).
- Policy Asset Allocation decision is, arguably, the most important decision made by the Board with regard to the Investment Funds. The Board is responsible for determining the Policy Asset Allocation and the investable asset classes.
- The Board is willing to accept an overall level of risk commensurate with the Policy Asset Allocation.
- The IF Committee is charged with recommending the investment policy.
- The Long-Term Objective of the Endowment Fund is to achieve a total return equal to or in excess of the Endowment Fund’s financial requirements over the Time Horizon. In addition to achieving the Spending Rate, the Policy Asset Allocation, as described herein, is designed to cover the costs of inflation, investment management/consulting fees, administrative costs, any growth factor, which the Board may, from time to time, determine appropriate.
- The Investment Consultant is charged with monitoring the Investment Funds’ performance and recommending investment strategies to the IF Committee.
- Investment Managers are required to invest assets in accordance with the guidelines and restrictions dictated by the Statement of Investment Policy.
- Investment Managers are required to demonstrate acceptable performance relative to a target benchmark and volatility of returns. Guidelines are established regarding, for example, the use of leverage, the maximum weighting of any one company or economic sector in a portfolio, and the amount of cash that may be held by a manager.

INTRODUCTION AND PURPOSE

This Statement of Investment Policy is set forth to:

1. Define the investment policies, guidelines and objectives governing the various assets for which the Michigan Tech Fund is responsible.
2. Create a framework from which the IF Committee can evaluate performance, explore new opportunities, and make recommendations to enhance the investment portfolio.
3. Provide guidance for, expectations of, and limitation on, all parties bearing investment responsibilities for the Michigan Tech Fund.

The intent of this Statement is to design an investment strategy with specific parameters that reflect the philosophy of the Board, thereby providing the IF Committee with clearly defined policies and objectives. Although these policies and objectives are intended to govern the investment activity, they are designed to be sufficiently flexible in order to be practical. Specific portfolio guidelines will be contained in separate Appendices. The assets for which the Michigan Tech Fund is responsible for include the Endowment Fund, Demand Fund, Unrestricted Fund, Specialized Accounts, Quasi-Endowment, and the Gift Annuity Reserve Fund.

SCOPE OF POLICY

This Statement of Investment Policy applies to all investable assets held by the Michigan Tech Fund on behalf of Michigan Technological University. Separate pools with different purposes have been established as follows:

Endowment Fund: Defined as funds contributed with the specific requirement that the contributions be invested permanently and only income is spent for the purposes for which the contributions were given. Use of the income is specified in documents on file with the Fund. The Board controls cash-flow requirements and investment decisions from a long-term perspective. Examples include: scholarships, faculty endowments and grants, departmental use, equipment, fellowships, awards, and other.

Quasi Endowment Fund: Defined as funds for specific non-endowed purposes for which the Fund serves as a custodian and manager. Typically, these funds are larger in nature and have a strategic plan use of one to five years. Examples include: Athletics, Departmental, Equipment, Fellowships, Grants, Student Loans, Awards, Scholarships, Senior Challenges, and Other.

Demand Fund: Defined as funds received for specific non-endowed purposes for which the Fund serves as a custodian and manager. These may be contributions or deposits. Withdrawals from funds, including principal, may be made at any time with the authority of the fund manager, who is typically a University department head or their designee. There are no specific cash-flow requirements for these funds. Examples include: Athletics, Departmental, Equipment, Fellowships, Grants, Student Loans, Awards, Scholarships, Senior Challenges, and Other.

Unrestricted Fund: Sources of funds for this category include unrestricted bequests, unrestricted annual gifts, and fees assessed by the Michigan Tech Fund.

Specialized Accounts: Special accounts established to meet unique donor requests, the pooled income fund, and charitable remainder trusts. These are established to fulfill specified investment guidelines or income requirements. Examples include: Bosch Fund, and Marshall & Ilsley funds.

Gift Annuity Reserve Fund: Special accounts established for planned gifts received for annuities.

DELEGATION OF RESPONSIBILITIES

Relationship between Board and IF Committee

The Board, ultimately, is responsible for making the decisions that govern all aspects of the Michigan Tech Fund's investments. The Board has created the IF Committee, a working committee of the Board to coordinate the activities of Investment Managers, the Investment Consultant and the Custodian, and to study issues pertinent to the Funds. The Board has delegated authority to the IF Committee to act on behalf of the Board in the performance of the Committee's delegated responsibilities as set forth below. The IF Committee shall report to the Board on its activities.

The Board's responsibilities include:

1. Engaging outside agencies to provide administrative and custodial services and outside independent auditors to account for the Funds' assets and activities, and
2. Approving changes to the Statement of Investment Policy as recommended by the IF Committee.
3. Approving the asset allocation policy.

IF Committee of the Board

The Board sets investment objectives and performance measurement standards. In turn, the Board has delegated to the IF Committee the responsibility to oversee the Funds' investment management on its behalf. The IF Committee has the responsibility to ensure that the assets of the Michigan Tech Fund are managed in a manner that is consistent with the policies and objectives of the Fund. In so doing, the IF Committee will comply with all applicable laws. The IF Committee members are required to discharge their duties solely in the interest of the Fund and for the exclusive purpose of meeting the financial needs of Michigan Tech. The IF Committee is authorized to engage the services of registered Investment Managers who possess the necessary specialized research facilities and skill to meet the investment objectives and guidelines of the Funds. The IF Committee will require the Investment Managers to adhere to any policies adopted by the Board.

The IF Committee's responsibilities include:

1. Reviewing recommendations from the Consultant and any Subcommittees,
2. Recommending investment policy for Board approval,
3. Selecting Investment Managers, Consultants, Custodians, and other Advisors, in accordance with this policy,
4. Recommending Consultants, custodians, and other Advisors to the Board for approval,
5. Developing investment policy guidelines for approval by the Board,

6. Developing investment objectives and performance measurement standards that are consistent with the financial needs of Michigan Tech, for approval by the Board,
7. Reviewing the Policy Asset Allocation and rebalancing strategies and selecting the Investment Managers to meet the Funds' objectives, and recommending them for approval by the Board,
8. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed,
9. Reporting to the Board, and
10. Recommending Spending Policy guidelines for approval by the Board.

Consultant

The IF Committee may recommend to the Board the engagement of an independent investment-consulting firm to assist the Fund in the attainment of the Funds' objectives and to monitor compliance with the stated investment policies. The Consultant is expected to be proactive in recommending changes in investment strategy, asset allocation, and investment managers if the situation warrants change. The Consultant's responsibilities are as follows:

1. Assisting in the development of investment policies, objectives, and guidelines,
2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Funds' objectives,
3. Recommending Investment Managers (including search and selection),
4. Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards,
5. Attending IF Committee meetings to present evaluation reports on a quarterly basis and at other meetings on an "as needed" basis,
6. Reviewing contracts and fees for both current and proposed Investment Managers,
7. Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Committee,
8. Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies and reporting all violations,
9. Notifying the IF Committee of any significant changes in personnel or ownership of the consulting firm,
10. Assisting the IF Committee in special tasks,
11. Notifying the IF Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved,
12. Notifying the IF Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm,
13. Assisting in the rebalancing of the portfolios,
15. Evaluating the Endowment Fund and other investment pools,
16. Providing research on specific issues and opportunities,
17. Being proactive with management and the IF Committee in the management of the Funds, and
18. Reviewing the annuities and their investment strategy.

Investment Managers

Investment Managers are expected to pursue their own investment strategies within the performance guidelines created for individual managers in accordance with Michigan Tech Fund selection criteria. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Funds.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions,
2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions,
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a quarterly basis in addition to other information as Requested by the Committee or Consultant,
4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Funds, and
5. Annually providing to the Michigan Tech Fund either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

The Custodian's responsibilities are as follows:

1. Providing timely reports detailing investment holdings and account transactions monthly to the Michigan Tech Fund and Consultant.
2. Providing an annual summary report to the Michigan Tech Fund and the Consultant within 30 days following each fiscal year end. The report will include the following:
 - a. Statement of all property on hand,
 - b. Statement of all property received representing contributions to the accounts,
 - c. Statement of all sales, redemptions, and principal payments,
 - d. Statement of all spending from the account,
 - e. Statement of all expenses paid,
 - f. Statement of all purchases, and
 - g. Statement of all income.
3. Establishing and maintaining accounts for all Investment Managers of the Funds,
4. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of uninvested cash, etc., and
5. Preparing additional accounting reports as requested by the Michigan Tech Fund, IF Committee, or Consultant.

INVESTMENT POLICIES AND OBJECTIVES

General Investment Philosophy

Objective: The Objective and general investment criteria of each of the Funds shall be described in **Appendix A** of this document.

The investment objectives of the five separate Pools within the Michigan Tech Fund are based on each Pool's investment horizon, allowing interim fluctuations to be viewed in an appropriate perspective. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is enhanced by diversification of the Funds.

Over time, each of the five separate Pools constituting the Michigan Tech Fund will aim to achieve its specific Objective while maintaining acceptable risk levels. To accomplish this goal, the Funds will diversify assets among several asset classes. **Appendix B** provides permissible asset classes and appropriate index measures of these classes.

The following return objectives are designed to coincide with the Objective of the Funds. All Objectives for the Funds and Investment Managers described below are understood to be net of (after) investment expense.

1. Total Fund assets should achieve an annualized nominal rate of return equal to or greater than that of the Objective.
2. Total Fund assets should return, over trailing twelve month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices (**Appendix B**) in the same proportion as the Fund's target allocation (as described in the Asset Allocation section of this document).
3. In general, active managers will be expected to provide returns greater than their appropriate benchmark, net after fees, while utilizing acceptable risk levels, over moving thirty-six-month periods. In contrast, index, or passive managers will be expected to provide returns very nearly identical to the appropriate benchmark, before reasonable fees, with no more volatility than the benchmark. Acceptable tracking errors for both active and passive Investment Managers in each asset class are set out in **Appendix B**.

Volatility and Risk

The IF Committee believes that the Objectives can be achieved while assuming acceptable risk levels commensurate with "market" volatility. "Market" volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices deemed appropriate.

The IF Committee further believes that the greatest investment risk the Funds face is the probability of failing to meet the Funds' Objectives over the Time Horizon. Therefore, to minimize the probability of failure, thereby minimizing risk, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Funds' investable assets:

- Probability of Missing the Objective
- Impact of Inflation on the Funds
- Asset/Style Allocation as the primary determinant of long-term performance

Spending Rate Policy

Sources of Spending

The Spending Rate Policy, as well as the Spending Rate, may differ among the Funds due to the various purposes and time horizons of each investment pool. The application of these elements for the Endowment Fund is fully described in **Appendix C**.

Total Return Policy

The Board has adopted a "total return" approach to calculating investment returns. The IF Committee recognizes that the Funds' total return is comprised of both traditional "income" and realized and unrealized net capital gains.

In recognition of these facts, the IF Committee has determined to consider the Funds' total return from both income and net realized and unrealized capital gains when administering the Spending Rate Policy. When distributions are made, they will be withdrawn from the Funds regardless of the portion of the total return that is from capital gains or from income.

Administrative Fees

Administrative fees are defined as fees charged back to the Endowment, Quasi-Endowment, and Demand Funds calculated on the expected return and principal balance in each of the Funds.

Asset Allocation

The single most important recommendation made by the IF Committee is the Policy Asset Allocation. Investment research has determined that a significant portion of a portfolio's investment behavior can be attributed to (1) the asset classes/styles which are employed by the Fund, and (2) the weighting of each asset class/style. It is the responsibility of the IF Committee to identify the Policy Asset Allocation that offers the highest probability of achieving the Funds' investment objectives. The IF Committee, with guidance and recommendations from their Consultant shall review the asset mix on an ongoing basis and recommend revisions to the Board as necessary.

The Policy Asset Allocation shall be determined based on a comprehensive asset allocation study completed by the Consultant and reviewed from time to time, in depth. The Policy Asset Allocations of the Funds, as presented in **Appendix C–G**, is designed to give balance to the overall structure of the Michigan Tech Fund’s investment program over the Time Horizon. However, some factors may impact the Policy Asset Allocations, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include:

1. The Committee’s assessment of the intermediate or long term outlook for different types of asset classes and styles,
2. The Consultant’s assessment of the intermediate or long term outlook for different types of asset classes and styles and,
3. Divergence in the performance of the different asset classes and styles.

Portfolio Rebalancing

Since Policy Asset Allocation is the most critical component of the Funds’ returns, it is desirable to rebalance the Funds periodically to minimize deviations from the Policy Asset Allocation mix.

The Funds shall be automatically rebalanced in the event any individual traditional asset class allocation differs from policy by more than 20% of the target weight, but with a minimum deviation threshold of 2% of the total portfolio value.

For example, if the Policy Asset Allocation for an asset class is 3% of the total portfolio, then the portfolio’s actual allocation must be either below 1% or above 5% of the total portfolio before rebalancing is required. In the example below, U.S. large-cap stocks have a Policy Allocation of 3.0% and an actual allocation of 5.4%. Thus, their 2.4% difference (5.4% minus 3.0%) meets the 2.0% minimum deviation threshold. In addition, the U.S. large-cap stocks are also out of balance by more than 20% of their target weight. They are out of balance by 78.9% of their target weight. Therefore, rebalancing is required in this example.

Market Value as of 12/31/00

Asset Class	Market Value	Actual Allocation	Policy Allocation	Difference	Absolute	Percentage	Rebalance (Yes or No)
US Lg Stks	\$5,500	5.4%	3.0%	\$2,425	2.4%	78.9%	YES
Fixed Income	\$97,000	94.6%	95.0%	(\$375)	-0.4%	-0.4%	NO
Total	\$102,500	100%	98%	\$0	0.0%	0.0%	NO

The Consultant will inform the administration at the close of any month in which rebalancing a Fund is necessary. The Consultant, together with administration, will complete the rebalancing process and notify the IF Committee. The Consultant will assist the Michigan Tech Fund’s Staff as needed in the process of implementing any rebalancing.

Permissible Investments

The Policy Asset Allocation of the Funds is expected to include a wide range of asset classes. These asset classes and their relative comparative indices are displayed in **Appendix B**. The asset classes include:

- Domestic Large-Capitalization Equity
- Domestic Large-Capitalization Growth Equity
- Domestic Large-Capitalization Value Equity
- Domestic Mid-Capitalization Equity
- Domestic Small-Capitalization Equity
- Domestic Small-Capitalization Growth Equity
- Domestic Small-Capitalization Value Equity
- International Large/Mid-Capitalization Equity
- International Small-Capitalization Equity
- International Emerging Markets Equity
- Fixed Income
- Private Equity
- Real Assets
- Absolute Return Strategies (Hedge Funds)
- Enhanced Indexing
- Corporate Paper
- Cash Equivalents

Investment Policies and Performance Goals for Investment Managers

The following are performance goals and constraint guidelines placed on individual asset managers within specific asset classes:

All Managers

1. Each manager shall demonstrate a reasonable match, or “fit,” with his or her comparative index, as measured by an acceptable R^2 and tracking error (See **Appendix B**). Tracking error is defined as the standard deviation of the excess returns. The R^2 is a statistical term that measures the historical tendency for an investment manager to perform similar to his assigned benchmark. A high R^2 (on a scale of 0 to 100) indicates a very similar pattern of performance between the investment manager and his assigned benchmark, while a low R^2 indicates a very dissimilar pattern of performance between the investment manager and his assigned benchmark.
2. Active managers may be terminated if tracking error is consistently out of policy and net performance is statistically indistinguishable from the benchmark return.
3. Index managers shall be terminated if tracking error is consistently out of policy.

4. The use of particular options and derivatives to reduce risk are acceptable with IF Committee approval. In addition, investment managers who have demonstrated an ability to add value with derivative securities (e.g., futures contracts, options) with appropriate levels of risk may purchase these securities with the prior written approval of the IF Committee.

Domestic Equity

1. The maximum weighting, on a cost basis, in any one company for active managers is 10% of the portfolio value.
2. The maximum weighting to any particular economic sector should be no greater than 50% more than the appropriate benchmark's weighting. For example, if the appropriate benchmark's weighting to an economic sector is 12%, the manager may hold no more than 18% of the portfolio in that sector.
3. Trading and Execution: Managers should execute trades on a competitive basis, considering both commission and market impact, as compared to relative size funds.

Domestic Fixed Income

1. The maximum weighting, on a cost basis, in any one security for active managers is 10% of the portfolio value. This does not apply to U.S. government and agency issues.

International Equity and Fixed Income

1. The use of currency futures to enhance performance and/or hedge currency exposure by international and/or global managers is at the discretion of the manager in accordance with the prospectus of the investment product, provided the hedging in any one currency will never exceed the market value of the assets invested in the currency. For separately managed accounts of the Michigan Tech Fund, the manager must submit to the IF Committee for approval a detailed description of the currency strategy prior to the implementation of such a strategy.

Other, Alternative Investments

1. Alternative investment managers typically have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers; instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

Other Investment Management Issues

1. *Securities Lending*: Investment Managers may engage in securities lending, or the “loan” of the Funds’ securities in return for interest, to broker dealers as a means of enhancing income.
2. *Active vs. Passive Management*: The IF Committee shall continue to review the relative advantages of passive versus active investment management in the context of reduced management expenses, stable performance and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.
3. *Related Party Transaction*: The Funds will not loan funds to related parties, defined as an officer, IF Committee member, employee, or donor, either current or prospective.

Performance Goals for Investment Consultants

The investment consultants will be reviewed on an annual basis and evaluated upon the performance of the duties outlined in *Delegation of Responsibilities, Consultant*, of this Statement of Investment Policy.

Procedure for Revising Guidelines

All investment policies and performance goals will be reviewed annually or when deemed necessary by the IF Committee. The Board must approve changes to this policy.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Funds or who are consulting to, or providing any advice whatsoever to the IF Committee shall disclose in writing at the beginning of any discussion or consideration by the committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The committee may require such persons to remove themselves from the decision-making process.

Any members of the IF Committee responsible for investment decisions or who are involved in the management of the Funds shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the IF Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Michigan Tech Fund. Failure to disclose any material benefit shall be grounds for immediate removal from the committee. This provision shall not preclude the payment of ordinary fees and expenses to the Funds’ custodian(s), Investment Managers, or Consultant in the course of their services on behalf of the Michigan Tech Fund.

APPENDIX A

SUMMARY TABLE OF FUND INVESTMENT CRITERIA

Fund	Objective	Investment Time Horizon	Target Return¹	Asset Allocation Target
Endowment	High Real Return and Long Term Growth	25+ Years	5% Real + Admin. Fees and Growth	58% growth assets, 24% risk reduction assets, and 18% inflation protection assets
Quasi-Endowment	Liquidity, Short-Term Growth	1-5 Years	Benchmark Rate of return on target asset allocation	15% US stocks, 15% international stocks, 40% risk reduction assets, 30% inflation protection assets
Demand	Liquidity and Preservation of Capital	1 Year	Benchmark Rate of return on target asset allocation	80% short/intermediate fixed 20% cash equivalents
Unrestricted	Liquidity and Preservation of Capital	1-5 Years	Benchmark Rate of return on target asset allocation	80% short/intermediate fixed 20% cash equivalents
Gift Annuities	Gift Annuities	25+ Years	Gift annuity rate plus return to MTF	65% equities 35% fixed income
Specialized – Other	Other donor-stipulated guidelines contained in account-specific documents			

¹ Real return is net of the cost of inflation. Inflation, in this case, uses HEPI (Higher Education Price Index), or the CPI + 0.5%, as a proxy.

APPENDIX B

COMPARATIVE INDICES FOR INVESTMENT MANAGERS

ASSET CLASS	COMPARATIVE INDEX	TARGET R ²	
		INDEX	ACTIVE
Equity			
<i>Domestic Equity</i>			
U.S. Large Stocks	S&P 500	99.9	95.0
U.S. Large Value Stocks	S&P/BARRA 500 Value / MSCI US Prime Market Value	99.9	95.0
U.S. Mid Stocks	S&P MidCap 400 / MSCI US MidCap 450	99.9	90.0
U.S. Small Stocks	Russell 2000	99.0	85.0
U.S. Small Value Stocks	Russell 2000 Value	99.0	85.0
<i>International Equity</i>			
Int'l Large/Mid Stocks	EAFE	99.5	95.0
Int'l Small Stocks	S&P/Citigroup EMI-EPAC	99.0	85.0
Emerging Mkt Stocks	MSCI Emerging Markets Free	99.0	85.0
Fixed Income			
Domestic Fixed Income	Lehman Aggregate Bond / Lehman Gov't Credit / Lehman 5-10 Yr Treasury	99.9	95.0
US Inflation Protected Fixed Income	Citigroup Inflation Linked Bond	99.0	85.0
Global Fixed Income	Citigroup World Gov't Bond	95.0	85.0
Alternative Investments			
Private Equity	N/A	-	-
Real Assets	Dow Jones Wilshire REIT, DJ- AIG Commodity, Goldman Sachs Natural Resources	-	-
Absolute Return (Hedge Funds)	HFR Fund of Funds	-	-

¹ Note: This benchmark is not available on a monthly basis. It is available quarterly, four months following the end of the quarter.

APPENDIX C
ENDOWMENT FUND OBJECTIVES AND GUIDELINES

Objective: The Objective of the Endowment Fund, as determined by the Board, is to achieve a total return equivalent to or greater than the Endowment Fund's financial requirements over the Time Horizon. The Endowment Fund's financial requirements are the sum of the Spending Rate, the long-term inflation rate (as indicated by the Higher Education Price Index), the aggregate costs of portfolio management, attributable costs of the Michigan Tech Fund's administration, and any growth factor which the IF Committee may, from time to time, recommend to the Board, as appropriate. The IF Committee has recommended a Policy Asset Allocation designed to achieve a return equal to or greater than the Objective. The excess return over the Objective is designed both to reduce the probability of missing the Objective over the time horizon and to provide for growth of the Endowment Fund.

General Investment Considerations:

- **Risk:** The IF Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- **Liquidity:** Because the vast majority of the Endowment Fund's assets are marketable, liquidity can be obtained as needed; therefore, the Endowment Fund does not have an explicit allocation to cash or cash equivalents.
- **Time Horizon:** The Endowment Fund has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- **Taxes:** The Michigan Tech Fund is tax-exempt.

Spending Rate Policy

Sources of Spending

The IF Committee recognizes both the short-term need of the Endowment Fund for annual income from the investment portfolio, and the long-term need for maintenance and growth of the Fund's purchasing power. As a result, the Board may appropriate for expenditure in any year for the uses and purposes for which the Endowment Fund is established so much of the net appreciation, realized and unrealized, in the fair market value of the investment portfolio over the historic dollar value of the investment portfolio as is prudent, but in all events not to exceed the amount determined under this Spending Rate Policy. This amount shall include any extra disbursement made by the Board in recognition of market conditions.

Spending Rate

The IF Committee recognizes that a Spending Rate equal to the Endowment Fund's total returns each year will doom the Endowment Fund to declining real values, due to the effects of inflation and costs of investment management. The Spending Rate will be reviewed periodically by the IF Committee in light of evolving trends with respect to investment returns and the rate of inflation and recommended for approval by the Board. Adjustments will be made when appropriate. When considering the investment performance of the Endowment Fund, the IF Committee will

consider the total returns of the Endowment Fund, including dividends on stock, interest on fixed-income securities, and capital gains, both realized and unrealized. Original gift principal, consisting of the sum of all gifts designated to any specific endowment account, shall never be spent.

Administrative Fees

Administrative fees are defined as fees charged back to the Endowment Fund calculated on the expected return and principal balance in each of the Funds.

Gift Fee

The MTF will retain the earnings from each new gift for the first twelve months.

Spending Rule

It shall be the policy of the Endowment Fund to distribute to every endowment account an amount equal to the product of the investment portfolio’s average market value for the trailing twelve quarters ending June 30th, multiplied by the Spending Rate. The amount to be distributed will be calculated as of June 30th and will be communicated to the University. This amount will not fluctuate throughout the fiscal year.

ENDOWMENT FUND ASSET ALLOCATION POLICY

ASSET CLASS	POLICY (%)
Growth Assets	
<i>US Stocks</i>	
US Large Stocks	10
US Large Growth Stocks	6
US Large Quality Stocks	5
<i>Total US Stocks</i>	<i>21</i>
<i>International Stocks</i>	
International Large Stocks	20
International Small Stocks	2
International Emerging Market Stocks	5
<i>Total International Stocks</i>	<i>27</i>
Private Equity / Special Situations	10
Total Growth Assets	58
Risk Reduction Assets	
US / Global Fixed Income	14
Hedge Funds	10
Total Risk Reduction Assets	24
Inflation Protection Assets	
US Inflation-Protected Fixed	6
Real Assets	12
Total Inflation Protection Assets	18
Total Allocation	100%

APPENDIX D

DEMAND FUND OBJECTIVES AND GUIDELINES

Objective: The Objectives of the Demand Fund are liquidity and preservation of capital.

General Investment Considerations:

- **Rise:** Because of the relatively short time horizon of the instruments in the Demand Fund, there is little tolerance for risk of principal.
- **Liquidity:** Because the necessary liquidity to meet the withdrawals from the fund, there is an explicit allocation to marketable assets.
- **Time Horizon:** The Demand Fund has an investment Time Horizon of one year.
- **Taxes:** The Michigan Tech Fund is tax-exempt.
- **Administrative Fees:** Administrative fees are defined as fees charged back to the Demand Fund calculated on the expected return and principal balance in the Fund.

DEMAND FUND ASSET ALLOCATION POLICY

ASSET CLASS	POLICY (%)
Short / Intermediated Fixed Income	80%
Cash and Cash Equivalents	20%
Total Allocation	100%

APPENDIX E

UNRESTRICTED FUND OBJECTIVES AND GUIDELINES

Objective: The Objectives of the Unrestricted Fund are liquidity and preservation of capital.

General Investment Considerations:

- **Risk:** Because of the relatively short time horizon of the instruments in the Unrestricted Fund, there is little tolerance for risk of principal.
- **Liquidity:** Because of the necessary liquidity to meet withdrawals from the fund, there is an explicit allocation to marketable assets.
- **Time Horizon:** The Unrestricted Fund has an investment Time Horizon of one to five years.
- **Taxes:** The Michigan Tech Fund is tax-exempt.

Administrative Fee

Administrative fees are defined as fees charged back to the Unrestricted Fund calculated on the expected return and principal balance in the Fund.

UNRESTRICTED FUND ASSET ALLOCATION POLICY

ASSET CLASS	POLICY (%)
Short / Intermediate Fixed Income	80
Cash and Cash Equivalents	20
Total Allocation	100%

APPENDIX F

SPECIALIZED FUND OBJECTIVES AND GUIDELINES

Objective: The Objectives of the Specialized Fund are to meet unique donor requests.

General Investment Considerations:

- **Risk:** The risk considerations are based on the donor stipulations.
- **Liquidity:** Liquidity needs are based on donor stipulations.
- **Time Horizon:** The Time Horizon is based on the donor stipulations.
- **Taxes:** The Michigan Tech Fund is tax-exempt.

Administrative Fees

Administrative fees are based on the donor stipulations.

SPECIALIZED FUND ASSET ALLOCATION POLICY

Account	ASSET CLASS	POLICY (%)
Gift Annuities	Equities	65%
	Fixed Income	35%
Other	These are donor-stipulated	

APPENDIX G

GIFT ANNUITY RESERVE FUND OBJECTIVES AND GUIDELINES

Asset Allocation

The asset allocation for the Gift Annuity Reserve Fund can be found below.

GIFT ANNUITY RESERVE FUND ASSET ALLOCATION POLICY

Account	ASSET CLASS	POLICY (%)
Gift Annuities	Equities	65%
	Fixed Income	35%
Other	These are donor-stipulated	

APPENDIX H

QUASI-ENDOWMENT FUND OBJECTIVES AND GUIDELINES

Objective: The Objectives of the Quasi-Endowment Fund are to invest funds for specific non-endowed purposes for which the Fund serves as a custodian and manager. Typically, these funds are larger in nature and have a strategic plane use of one to five years.

General Investment Considerations:

- **Risk:** The IF Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- **Liquidity:** The investments consist of mutual funds, all of which are very liquid.
- **Time Horizon:** One to five years.
- **Taxes:** The Michigan Tech Fund is tax-exempt.

Administrative Fees

Administration fees are defined as fees charged back to the Quasi-Endowment Fund calculated on the expected return and principal balance in each of the Funds.

QUASI-ENDOWMENT FUND ASSET ALLOCATION POLICY

ASSET CLASS	POLICY (%)
Growth Assets	30%
Risk Reduction Assets	40%
Inflation Protection Assets	30%

Signatures:

President
Michigan Tech Fund

Chief Financial Officer
Michigan Tech Fund

This Statement of Investment Policy must be reviewed by the IF Committee at least once a year and confirmed as appropriate or amended as necessary at that time.

Approved at a meeting of the Board on this 8th day of May 2008.